

Message Text

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72-62

ORIGIN EA-09

INFO OCT-01 ISO-00 EUR-12 NEA-10 ARA-06 EB-07 SS-15 SSO-00
CCO-00 /060 R

DRAFTED BY EA/EP:AGEBER:SRP

APPROVED BY EA:AHUMMEL

EUR/RPE:ELAMB

NEA/RA:LSEMAKIS

ARA/ECP:JO'MAHONEY

EB:RRYAN

S:DPASSAGE

S/S:RPERITO

P - MR. HABIB

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O 090239Z DEC 76 ZFF4

FM SECSTATE WASHDC

TO USDEL SECRETARY IMMEDIATE

C O N F I D E N T I A L STATE 299307 TOSEC 320104

E.O. 11652: GDS

TAGS:IMF

SUBJECT: ACTION MEMORANDUM: CHINESE REPRESENTATION IN
THE INTERNATIONAL MONETARY FUND (S/S NO. 7625235)

TO THE SECRETARY FROM EA - ARTHUR W. HUMMEL, JR. THROUGH
HABIB

1. THE PROBLEM/RECOMMENDATION

AS WE PREVIOUSLY REPORTED, THE IMF EXECUTIVE DIRECTORS
WERE ABOUT EVENLY DIVIDED ON EXPULSION OF THE ROC ON
DECEMBER 3. THE ISSUE WILL AGAIN BE DEALT WITH IN ABOUT
TEN DAYS. THE US OBJECTIVE IS TO AVOID EXPULSION OF THE
ROC IN THE ABSENCE OF PRC INTEREST IN MEMBERSHIP. WE
RECOGNIZE THAT IF THE PRC WANTS MEMBERSHIP THERE WILL BE
LITTLE CHANCE OF PRESERVING ROC MEMBERSHIP. HOWEVER, TO
DATE, THE PRC SEEMS INTENT ONLY ON EXPELLING THE ROC.

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THE QUESTION IS HOW WE CAN BEST ASSURE AN OUTCOME

FAVORABLE TO OUR POSITION AT THE NEXT MEETING OF THE IMF EXECUTIVE DIRECTORS- WE RECOMMEND THAT WE APPROACH SELECTED GOVERNMENTS AND URGE THEM TO OPPOSE EXPULSION OF THE ROC FROM THE IMF PRIOR THE ASCERTAINING OF PRC INTENTIONS.

2. BACKGROUND/ANALYSIS

THE EXECUTIVE DIRECTORS OF THE IMF AT THEIR DECEMBER 3 MEETING HAD BEFORE THEM A DRAFT LETTER FROM THE MANAGING DIRECTOR OF THE IMF TO THE PEOPLE'S BANK OF CHINA. IT WAS A PROPOSED REPLY TO AN EARLIER COMMUNICATION FROM THE LATTER IN WHICH THE PEOPLE'S BANK OF CHINA CALLED FOR THE EXPULSION OF THE ROC AND MADE CLAIM TO THE CHINESE ASSETS IN THE IMF. THE IMF DRAFT REPLY POINTED OUT THAT ASSETS, RIGHTS AND INTERESTS CANNOT BE DETACHED FROM FINANCIAL OBLIGATIONS; REFERRED TO THE 1973 IMF APPROACH WHICH INQUIRED ABOUT PRC INTEREST IN PARTICIPATION; AND AGAIN REQUESTED CLARIFICATION OF THE PRC'S INTENTIONS. THE NORDIC COUNTRIES FOUND THIS RESPONSE INSUFFICIENT, ESPECIALLY SINCE NO PROGRESS HAS BEEN MADE SINCE 1973 TO BRING THE PRC INTO THE IMF. THEY URGED THAT THE ROC SHOULD BE FIRST EXPELLED AND ONLY THEN SHOULD THE PRC BE APPROACHED AGAIN. THE NORDIC GROUP WAS SUPPORTED BY THE EXECUTIVE DIRECTORS OF FRANCE, FRANCOPHONE AND ANGLOPHONE AFRICA, THE ARAB GROUP, THE DUTCH, ITALY, AUSTRALIA, AND IRAN. THE OPPOSITE VIEW, I.E. THAT PRC INTENTIONS NEED TO BE CLARIFIED FIRST WAS STRONGLY ARGUED BY US AND WAS SUPPORTED BY UK, GERMANY, JAPAN AND TWO OF THE LATIN AMERICAN EXECUTIVE DIRECTORS. THERE WAS SOME AMBIGUITY IN POSITIONS OF SEVERAL EXECUTIVE DIRECTORS SINCE SOME WHO FAVORED THE IMF SEEKING CLARIFICATION OF PRC INTENTIONS ALSO FELT THAT THE LETTER SHOULD BE REDRAFTED TO SHOW A MORE FORTHCOMING INTEREST ON THE PART OF THE IMF IN PRC PARTICIPATION.

ALTHOUGH THE MANAGING DIRECTOR CONCLUDED AT ONE POINT THAT A SLIM MAJORITY OF WEIGHTED VOTES OF EXECUTIVE DIRECTORS FAVORED A REPLY TO THE PRC SOMEWHAT ALONG THE LINES PROPOSED BY IMF, THE AMBIGUITY OF SOME OF THE
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POSITIONS AND THE POSSIBILITY OF CHANGED INSTRUCTIONS BETWEEN NOW AND THE NEXT MEETING, MAKE THE OUTCOME OF THE NEXT DEBATE UNCERTAIN.

DESPITE THE INQUIRY FROM THE PEOPLE'S BANK OF CHINA IN SEPTEMBER THERE IS NO INDICATION THAT THE PRC IS SERIOUSLY INTERESTED IN PARTICIPATING IN THE IMF. UNDER THOSE CIRCUMSTANCES AN OUSTER OF THE ROC WOULD CREATE

A NUMBER OF AWKWARD AND UNDESIRABLE LEGAL AND FINANCIAL PROBLEMS BOTH IN THE IMF AND PARTICULARLY IN THE IBRD WHICH - OC HAS OVER 200 MILLION DOLLAR OUTSTANDING LIABILITIES.

IT IS THIS LIKELIHOOD OF A MOST UNDESIRABLE VACUUM OF CHINESE REPRESENTATION IN THE IMF AND IBRD WHICH IS THE MOST TELLING ARGUMENT AGAINST THOSE WHO ADVOCATE THE

OUSTER OF THE ROC BEFORE THE PRC'S WILLINGNESS TO PARTICIPATE AND ASSUME THE OBLIGATIONS IS ASCERTAINED. FURTHERMORE, IT COULD BE POINTED OUT THAT, AS WAS THE CASE OF THE UN IN 1971, THE PRESENCE OF THE ROC DOES NOT INHIBIT THE PRC FROM SEEKING REPRESENTATION IN AN ORGANIZATION IF IT IS INTERESTED IN DOING SO.

THEREFORE THE QUESTION ARISES HOW WE COULD BEST ASSURE A FAVORABLE OUTCOME OF THE NEXT DISCUSSION OF THE IMF EXECUTIVE DIRECTORS. AT THE SAME TIME WE HAVE TO CONSIDER WHAT SIGNAL A US CAMPAIGN AGAINST THE EXPULSION OF THE ROC WOULD GIVE TO THE PRC.

3. THE OPTIONS:

1. UNDERTAKE NO REPRESENTATIONS IN CAPITALS.

-- IT MAY BE POSSIBLE THAT THE MAJORITY OF THE EXECUTIVE DIRECTORS WILL APPROVE A REVISED AND MORE FORTHCOMING LETTER BY THE IMF TO THE PRC, ESPECIALLY IF THE IMF DOCUMENTATION IS SUPPLEMENTED BY SOME OF THE LEGAL AND FINANCIAL IMPLICATIONS OF AN OUSTER OF THE ROC. OR THE EXECUTIVE DIRECTORS MAY AGAIN POSTPONE ANY DECISION.

-- IT WOULD RELIEVE US FROM GIVING THE IMPRESSION THAT CONFIDENTIAL

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WE ARE MOUNTING A CAMPAIGN AGAINST THE PRC.

-- IT MAY RESULT IN A DEFEAT OF OUR POSITION.

2. INSTRUCT ALL OF OUR EMBASSIES IN IMF MEMBER CAPITALS TO SEEK SUPPORT FROM FOREIGN OFFICES AND FINANCE MINISTRIES FOR OUR POSITION.

-- WE MAY ASSURE THE CONTINUED SUPPORT OF THOSE COUNTRIES WHICH ARE ESSENTIALLY IN FAVOR OF OUR POSITION AND WE MAY PICK UP SOME BACKING FROM SOME OF THE SMALLER COUNTRIES ON WHOSE SUPPORT WE DID NOT COUNT.

-- WE WOULD APPEAR ENGAGED IN A MAJOR CAMPAIGN AGAINST THE PRC.

-- WE MAY ALSO DRAW THE ATTENTION OF SOME OF THE COUNTRIES TO THIS ISSUE WHO WILL THEN OPPOSE US, WHEREAS WITHOUT OUR INTERVENTION THEY MAY HAVE OVERLOOKED THE ISSUE.

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3. INSTRUCT A SELECTED NUMBER OF EMBASSIES TO APPROACH HOST GOVERNMENTS' TREASURIES AND FOREIGN OFFICES IN COUNTRIES WHERE WE CAN REASONABLY EXPECT SOME SUPPORT

AND WHOSE SUPPORT WOULD BE SUFFICIENT TO ASSURE A FAVORABLE OUTCOME. THESE COUNTRIES ARE: JAPAN, GERMANY, UK, BELGIUM, KOREA, AUSTRALIA, NEW ZEALAND, ARGENTINA, BRAZIL, AND SAUDI ARABIA. IN ANOTHER GROUP OF COUNTRIES WHERE THE PROSPECTS ARE LESS LIKELY BUT WHERE IT MAY BE WORTH TRYING, WE WOULD LEAVE THE APPROACH AT THE DISCRETION OF OUR AMBASSADORS. THESE ARE: THE PHILIPPINES, IRAN, EGYPT AND POSSIBLY INDONESIA, THAILAND, MALAYSIA AND SINGAPORE, THESE LATTER DEPENDING ON CONSULTATIONS WITH THEIR IMF EXECUTIVE DIRECTOR.

-- SUCH APPROACH MAY WELL LEAD TO A SUCCESSFUL RESULT IN THE IMF.

-- SINCE IT WOULD BE RESTRICTED TO COUNTRIES BASICALLY
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SYMPATHETIC TO OUR POSITION WE COULD ASSUME A REASONABLE DEGREE OF DISCRETION AND OUR ACTION WOULD NOT APPEAR AS A MAJOR CAMPAIGN AGAINST THE PRC.

-- IT COULD NEVERTHELESS BECOME KNOWN TO THE PRC AND IT REPRESENTS A MORE DELIBERATE EFFORT THAN OPTION 1.

4. RECOMMENDATION:

RECOMMEND THAT YOU AUTHORIZE OPTION 3, I.E. AN INSTRUCTION TO SELECTED EMBASSIES LISTED ABOVE TO APPROACH HOST GOVERNMENTS' TREASURIES AND FOREIGN OFFICES ON THE WORKING LEVEL TO SUPPORT AN IMF REQUEST TO THE PRC FOR CLARIFICATION OF ITS INTENTIONS WITHOUT A PRIOR EXPULSION OF THE ROC.

APPROVE: -----

DISAPPROVE: -----

ALTERNATIVELY, OPTION 1.: NO REPRESENTATIONS.

APPROVE: -----

DISAPPROVE: -----

ALTERNATIVELY, OPTION 2.: APPROACH ALL IMF MEMBERS.

APPROVE: -----

DISAPPROVE:

6. CLEARED BY EUR/RPC:ELAMB; NEA/RA:LSEMAKIS;

ARA/ECP:JO'MAHONEY; EB:RRYAN; S:DPASSAGE ; S/S:RPERITO

7. DRAFTED BY EA/EP:AGEBER.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TOSEC, POLICIES, MEMBERSHIP
Control Number: S7625235
Copy: SINGLE
Draft Date: 09 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE299307
Document Source: CORE
Document Unique ID: 00
Drafter: AGEBER:SRP
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760454-0486
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761257/aaaabxiz.tel
Line Count: 239
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 03 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03 JUN 2004 by ifshinsr>; APPROVED <27 SEP 2004 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ACTION MEMORANDUM: CHINESE REPRESENTATION IN THE INTERNATIONAL MONETARY FUND (S/S NO. 7625235) TO THE SECRETARY FROM EA - ARTHUR W. HUMMEL, JR. T
TAGS: PORG, CH, TW, US, IMF
To: SECRETARY
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006